Quad City Garage Policy Group Audited Financial Statements and Supplementary Information for the years ended June 30, 2008 and 2007

# QUAD CITY GARAGE POLICY GROUP Audited Financial Statements and Supplementary Information for the years ended June 30, 2008 and 2007

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Certified Public Accountants & Consultants

# **Independent Auditor's Report**

The Board of Members **Quad City Garage Policy Group**Rock Island, Illinois

We have audited the accompanying financial statements of the Quad City Garage Policy Group as of and for the years ended June 30, 2008 and 2007, as listed in the table of contents. These financial statements are the responsibility of the Quad City Garage Policy Group's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Quad City Garage Policy Group, as of the years ended June 30, 2008 and 2007, and the changes in its financial position and its cash flows, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated October 28, 2008 on our consideration of the Quad City Garage Policy Group's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 7 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming opinions on the financial statements of the Quad City Garage Policy Group. The schedule of expenses compared to budget is presented for purposes of additional analysis and is not a required part of the financial statements. The schedule of expenses compared to budget has been subjected to the auditing procedures applied in the audit of financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

McGovern & Greene LAP

Chicago, Illinois October 28, 2008

Management's Discussion and Analysis for the years ended June 30, 2008 and 2007

# About the Financial Statements of Quad City Garage Policy Group

This section of the financial report presents management's discussion and analysis of the Quad City Garage Policy Group's ("Group") financial performance during the fiscal years ended June 30, 2008 and 2007. Please read it in conjunction with the Group's financial statements. The financial statements of the Group are presented on an accrual basis. Accounting principles used are similar to principles applicable in the private sector. The Group's basic financial statements consist of the Statements of Net Assets; the Statements of Revenue, Expenses and Changes in Net Assets; and the Statements of Cash Flows. These statements are the measures used to evaluate the short-term and long-term outlook of the Group's finances and are used in conjunction with the Annual Budget, which is the Group's financial plan for the fiscal year. The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the fund financial statements. The Notes to the Financial Statements can be found on pages 13 - 19 of this report. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. Required supplementary information is limited to this Management Discussion and Analysis and Schedule of Expenses Compared to Budget on pages 3 - 7 and 21 - 25 respectively.

# **Financial Highlights**

The Group is showing a net operating loss for the fiscal years ended 2008 and 2007. The operating losses are (\$21,159) and (\$44,045), respectively. These losses are due to year end-only accruals for expenses like payroll and unrecorded accounts payable. Because they are accrued only at year end, they will not be billed until the next fiscal year, resulting in a loss for the current year. The loss will be recovered in the following fiscal year when the expenses are billed.

- The June 30, 2007 the accrual for unrecorded accounts payable was \$30,777 and for accrued payroll was \$21,565, totaling \$52,342. If this had been billed in fiscal year 2007, the operating loss would have become an operating gain of \$8,296.
- The June 30, 2008 the accrual for unrecorded accounts payable was \$5,363 and for accrued payroll was \$28,903, totaling \$34,266. If this had been billed in fiscal year 2008, the operating loss would have become an operating gain of \$13,107.

# **Statements of Net Assets**

The Statements of Net Assets present the assets and liabilities of the Group similar to the private sector on an accrual basis. Revenues and expenses are recognized when incurred rather than when cash is paid or received. The differences between assets and liabilities as reflected on the Statements of Net Assets represent the financial position of the Group or the net assets. A comparative analysis of the Group's net assets is presented below (Table 1).

Management's Discussion and Analysis for the years ended June 30, 2008 and 2007

Table 1 Net Assets at June 30 (000's)

	2008	2007
Current and other assets	\$ 130	\$ 181
Inventories	612	522
Capital assets	7	8
Total assets	749	711
Current and other liabilities	290	240
Total liabilities	290	240
Net assets:		
Invested in capital assets	7	8
Restricted	0	0
Unrestricted	452	463
Total Net Assets	\$ 459	\$ 471

# **Overall Financial Position**

For the year ended June 30, 2008, the Group's net assets decreased by 2.5 percent (\$459,000 compared to \$470,700). Unrestricted net assets used to finance the Group's operations decreased by 2.3 percent (\$452,400 compared to \$463,000). The Group has no restricted assets. This year's decrease of \$11,600 in net assets is illustrated in the Changes in Net Assets schedule below (Table 2).

Management's Discussion and Analysis for the years ended June 30, 2008 and 2007

Table 2 Changes in Net Assets at June 30 (000's)

	2008	2007
Operating Revenues		
Sale of Maintenance	\$ 4,502.4	\$ 4,082.6
Total Operating Revenue	4,502.4	4,082.6
Operating Expenses	4,523.5	4,126.6
(Deficit)/Surplus from Operations	(21.1)	(44.0)
Non-Operating Revenues		
Investment	.0	.3
Other	9.5	8.6
Total Non-Operating Revenue	9.5	8.9
Increase (Decrease) in Net Assets	(\$ 11.6)	(\$ 35.1)

For the year ended June 30, 2008, the Group's operating revenue increased by 10.3 percent (\$419,800). The Group's revenue is based on a direct reimbursement for expenses. Therefore, the increase in revenue is attributable to increased costs of fuel and maintenance parts.

Investment income decreased 0.3 percent (\$304) due to decreased cash balances in the operating account.

Total operating expenses increased 9.6 percent (\$396,900) from 2007 to 2008. A few of the significant line item increases and/or decreases were as follows:

- Fuel costs have risen from \$2.36 per gallon in June of 2007 to \$3.87 per gallon June of 2008, a 61% increase. The expenditures for diesel fuel in FY2008 were \$1,174,473 as compared to \$1,085,733 in FY2007, an \$88,740 increase.
- In December the Group added an Assistant Director of Maintenance position.
- The Group had two (2) open Service Work positions for most of fiscal year 2008. Therefore mechanics have been working authorized overtime to provide these necessary services, which has resulted in labor overages.

# **Budgetary Highlights**

There were no differences between the original and final amended budgets for the fund.

Management's Discussion and Analysis for the years ended June 30, 2008 and 2007

# **Capital Assets**

A comparative analysis of the changes in the Group's capital assets for the year ended June 30, 2008 is presented in Table 4. Net property, plant, and equipment decreased by \$1,100. The decrease is due to the current year's depreciation. No capital assets were disposed of during 2008.

Table 4 Capital assets at June 30 (000's)

	2008	2007
Vehicle Maintenance	\$ 11.4	\$ 11.4
Installed Machinery & Equipment	86.3	86.3
Radio Equipment	0.0	0.0
Computer Equipment	0.0	0.0
Office Furniture & Equipment	69.9	69.9
Total Property, Plant & Equipment	167.6	167.6
Accumulated Depreciation	(161.0)	(159.9)
Property, Plant, & Equipment - Net	\$ 6.6	\$ 7.7

Additional information on the Group's capital assets can be found in Note H on page 15 of this report.

# **Fraudulent Transactions**

In December 2003, management discovered that an employee of the Group was embezzling funds. Upon verification, the employee was terminated. The embezzlement loss exceeded \$800,000. The Group referred the case to the Federal Bureau of Investigation, filed a claim with the Group's insurance carrier, and sought civil damages from the audit firm that failed to detect the embezzlement. The employee was charged with the embezzlement and convicted. To date, the Group has received approximately \$142,500 towards the theft. The civil damages against the previous auditing firm were settled out of court in 2007 and those damages were awarded directly to the City of Davenport and to MetroLINK.

# QUAD CITY GARAGE POLICY GROUP Management's Discussion and Analysis for the years ended June 30, 2008 and 2007

## **Economic Trends**

As the new fleet ages and the units are no longer under warranty, the maintenance costs for both entities will likely continue to increase. Due to the age of the maintenance facility, costs associated with its maintenance: wages, fringes, and contract maintenance, as well as materials and supplies will likely increase.

The Group began using a bio-diesel mixture in the spring of 2007. This fuel was cheaper than regular diesel through the 2007 fiscal year. Unfortunately, the rising commodity prices have all but negated the Group's savings in fiscal year 2008. In addition, increased metal prices are also affecting parts pricing, especially body panels and radiator cores. The Group anticipates additional price increases for both fuel and parts in the coming year.

The Group was notified by their diesel vendor in the beginning of Fiscal Year 2009 that they may not qualify for certain excise tax exemptions on diesel fuel purchases that have been approved in the past. The Group is investigating this issue as it does not believe that the new classification being applied is correct with regards to their situation. If the new classification is correct, however, it will mean an increase of \$0.073 per gallon increase in diesel fuel prices for the coming fiscal year, independent of the volatile price fluctuations.

# **Contacting the Group's Management**

The financial reports of the Group provide an overview for the public of the financial accountability the Group maintains for the resources received. Further questions concerning this report should be directed to Matt Bean, Director of Maintenance, Quad City Garage Policy Group, 2929 5<sup>th</sup> Ave., Rock Island, IL 61201.

# Statements of Net Assets at June 30, 2008 and 2007

	2008		2007	
ASSETS:				
Current assets:				
Cash and cash equivalents	\$	84,197	\$	3,056
Account receivable - City of Davenport		37,484		39,489
Account receivable - MetroLINK		<u></u>		135,171
Materials and supplies inventory		612,160		522,138
Prepaid expenses and other assets		9,067		3,125
Total current assets	***************************************	742,908		702,979
Capital assets:				
Property and equipment		167,539		167,539
Less accumulated depreciation and amortization		(160,964)		(159,866)
Net capital assets	h	6,575		7,673
Total assets	\$	749,483	\$	710,652
LIABILITIES:				
Current liabilities:				
Accounts payable and accrued expenses	\$	215,620	\$	239,991
Due to MetroLINK		74,859		_
Total current liabilities		290,479		239,991
Total liabilities		290,479		239,991
NET ASSETS:				
Invested in capital assets		6,575		7,673
Unrestricted		452,429		462,988
Total net assets	\$	459,004	\$	470,661

# Statements of Revenue, Expenses and Changes in Net Assets for the years ended June 30, 2008 and 2007

	2008	2007
OPERATING REVENUE:		
Revenue from sale of maintenance services	\$ 4,502,352	\$ 4,082,622
OPERATING EXPENSES:		
Wages and related employee benefits:		
Wages	1,032,258	966,773
Group medical, life and disability insurance	301,842	251,141
Pensions	65,093	56,102
Social security and other payroll taxes	84,457	80,103
Worker's compensation	35,823	25,503
Other	11,237	11,276
	1,530,710	1,390,898
Other operating expenses:		
Materials and supplies consumed	930,247	839,872
Fuel and oil consumed	1,230,761	1,108,363
Contract services	588,701	572,527
Utilities	166,139	147,852
Casualty and liability insurance	25,493	24,186
Lease and rental	15,531	17,774
Depreciation	1,098	713
Miscellaneous	34,831	24,482
	2,992,801	2,735,769
Total operating expenses	4,523,511	4,126,667
Operating (loss)	\$ (21,159)	\$ (44,045)

# Statements of Revenue, Expenses and Changes in Net Assets for the years ended June 30, 2008 and 2007

	2008		2007	
NONOPERATING REVENUES:				
Other income	\$	9,471	\$	8,574
Interest income		31		335
Total nonoperating revenues		9,502		8,909
(Decrease) in net assets		(11,657)		(35,136)
BEGINNING OF YEAR NET ASSETS		470,661		505,797
END OF YEAR NET ASSETS	\$	459,004	\$	470,661

# Statements of Cash Flows for the years ended June 30, 2008 and 2007

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received for sale of maintenance services	\$ 4,714,387	\$ 4,095,818
Wages and benefits paid to employees	(1,524,953)	(1,388,238)
Payments to suppliers for goods and services	(3,117,795)	(2,721,782)
Net cash provided (used) by operating activities	71,639	(14,202)
CASH FLOWS FROM NON-CAPITAL FINANCING		
ACTIVITIES		
Other receipts	9,502	8,909
Net cash provided by non-capital financing activities	9,502	8,909
CASH FLOWS FROM CAPITAL AND RELATED		
FINANCING ACTIVITIES		
Cash (used) for puchase of capital assets	. 0	(5,672)
Net cash (used) by capital and related financial activities	0	(5,672)
NET INCREASE (DECREASE) IN CASH AND		
CASH EQUIVALENTS	81,141	(10,965)
CASH AND CASH EQUIVALENTS - BEGINNING		
OF YEAR	3,056	14,021
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 84,197	\$ 3,056

<sup>.</sup> The accompanying notes are an integral part of these financial statements.

# Statements of Cash Flows for the years ended June 30, 2008 and 2007

	·····	2008	 2007
RECONCILIATION OF OPERATING (LOSS) TO NET			
CASH PROVIDED (USED) BY OPERATING			
ACTIVITIES			
Operating (loss)	\$	(21,159)	\$ (44,045)
Adjustments to reconcile operating (loss) to net cash			
provided (used) by operating activities:		•	
Depreciation		1,098	713
Decrease in accounts receivable		212,036	13,193
(Increase) in materials and supplies inventory		(90,024)	(16,434)
(Increase) in prepaid expenses and other assets		(5,942)	(319)
Increase (decrease) in accounts payable and accrued			
expenses		(24,370)	32,690
Net cash provided (used) by operating activities	\$	71,639	\$ (14,202)

#### **NOTE 1 – REPORTING ENTITY**

The Quad City Garage Policy Group ("Group") was formed by the City of Davenport, Iowa and the Rock Island County Illinois Metropolitan Mass Transit District ("MetroLINK") under Chapters 34, 85, and 127 of the Illinois Revised Statutes and Chapter 28E of the Iowa Code in 1979. The purpose of the Group is to oversee and operate a joint maintenance and storage facility for transit revenue vehicles and related equipment. The Group uses a facility located in Rock Island, Illinois at 2929 Fifth Avenue. The facility has approximately 75,000 square feet and is jointly owned, 58% by MetroLINK and 42% by the City of Davenport. The facility is used by the Group rent-free.

The Group is administered by a Board of Members ("Board") that acts as the authoritative and legislative body of the entity. The Board is comprised of seven members. Three members are appointed by Rock Island County Metropolitan Mass Transit District ("MetroLINK") and three members are appointed by the City of Davenport. The City of Davenport and MetroLINK alternate each year in which entity appoints the seventh member. Board members serve a term of one year; there are no term limits for reappointment. At each meeting, there are four voting members – two from MetroLINK and two from the City of Davenport. In addition, there are two alternate members and the Chairperson.

The Board annually appoints the Chairperson of the Board from existing board members. The Chairperson's responsibilities are to preside at all meetings of the Board; be the chief officer of the Group; perform all duties commonly incident to the presiding officer of a board, commission or business organization and exercise supervision over the business of the Group, its officers and employees.

The Board contracts for a Director of Maintenance and an Assistant Director of maintenance for the Group. The contracts are passed by resolution of the Board. The Director's main responsibility is acting as chief executive officer of the Group as prescribed by the Board. The Assistant Director's main responsibility is overseeing operations and providing support to the Director as needed.

In accordance with the requirements of Statement No. 14, The Financial Reporting Entity, of the Governmental Accounting Standards Board (GASB), the financial statements must present the Group (the primary government and its component units). Pursuant to this criterion, no component units were identified for inclusion in the accompanying financial statements.

#### NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

# A. Funding of Operations

The Group is subsidized by MetroLINK and the City of Davenport based upon the amended Joint Ownership Agreement and Operating Rules for the Group dated May 23, 2000. The agreement has a term of 10 years ending June 20, 2010 and may be renewed or amended at anytime. In the event that the agreement is not renewed or amended upon its expiration, liquidation of all assets shall be made within 90 days.

## B. Financial Reporting

The accompanying financial statements have been prepared using the *economic resources* measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flow. The financial components of the Group consist of one fund classified as an enterprise fund for financial reporting purposes.

# C. Accounting for Proprietary Fund Activities

The Group applies to the enterprise fund activities all Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions and Accounting Research Bulletins (ARB), issued on or before November 30, 1989, unless those pronouncements conflict or contradict GASB pronouncements. FASB Statements issued subsequent to November 30, 1989 are not followed.

# D. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

# E. Cash and Cash Equivalents

Cash and cash equivalents include all bank accounts with an original maturity of less than three months.

# NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

# F. Cash Deposits

The Group maintained its cash deposits at one Illinois financial institution as of June 30, 2008, and two Illinois financial institutions in 2007. The carrying amount of all deposits was \$84,197 and \$2,774 at June 30, 2008 and 2007, respectively. The Group's bank deposits are insured by Federal Depository Insurance up to \$100,000 per institution.

# G. Materials and Supplies Inventory

Inventory is stated at the lower of cost (weighted average method) or market, and includes items to support the Group's operations.

# H. Capital Assets

Capital assets are stated at historical cost. An asset is capitalized if the cost is greater than \$5,000 and has a useful life greater than one year.

Depreciation is provided on the straight-line method at rates that are designed to amortize the original cost of the property over its estimated useful life. The major categories of Group property in service and their estimated useful lives are as follows at June 30, 2008 and 2007:

Estimated

	useful life
Vehicle Maintenance - Group	5-10 years
Installed Machinery and Equipment	7-40 years
Office Equipment and Furniture	7 years

# I. Compensated Absences

Employees accumulate vacation hours for subsequent use or for payment upon termination, retirement or death. Accumulated vacation at June 30, 2008 and 2007 was \$35,485 and \$38,289, respectively.

Two other types of compensated absences that the Group provides are sick leave and holiday hours. Sick leave automatically terminates on the day an employee quits or is terminated. However, if an employee retires, he or she is entitled to 70% of accumulated sick leave hours in excess of 720 up to 2,400 hours, as computed at his or her straight-time hourly rate. Holiday hours are lost at the end of the year if not taken. The Group had no vested sick leave as of June 30, 2008 and 2007.

# NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

# J. Net Assets

Net assets present the difference between assets and liabilities in the statements of net assets. Net assets invested in capital assets are reduced by the outstanding balances of any borrowing used by the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are legal limitations imposed on their use or external restrictions by creditors, grantors, laws or regulations of the other governments.

# K. Operating and Non-Operating Revenues

Operating revenues consist of sales of maintenance services to MetroLINK and the City of Davenport as described in the amended Joint Ownership Agreement and Operating Rules.

Non-operating revenues consist of miscellaneous receipts from sales of obsolete parts, vending machine income, and insurance reimbursement as described in Note 7.

# NOTE 3 – PENSION AND RETIREMENT BENEFITS

The Group contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50302-9117.

Through June 30, 2008 plan members were required to contribute 3.90% of their annual salary and the Group was required to contribute 6.05% of annual covered payroll. Contribution requirements are established by State statute. Those percentages are scheduled to increase over the next three years at the following rates:

	<u>07/01/08</u>	<u>07/01/09</u>	<u>07/01/10</u>
Member Rate	4.10%	4.30%	4.50%
Employer Rate	6.35%	6.65%	6.95%
Combined Rate	10.45%	10.95%	11.45%

# **NOTE 3 – PENSION AND RETIREMENT BENEFITS (continued)**

The Group's contributions to IPERS for the years ended June 30 were as follows:

# Contribution

	Amount	Percentage
2006	51,229	5.75%
2007	56,102	5.75%
2008	65,093	6.05%

# **NOTE 4 – CAPITAL ASSETS**

Capital Asset activity for the year ended June 30, 2008 is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Garage machinery and equipment	\$ 97,658	\$ 0	\$ 0	\$ 97,658
Office furnishings and equipment	69,881	0	0	69,881
Total capital assets	167,539	0	0	167,539
Less accumulated depreciation for:				
Garage machinery and equipment	(89,985)	(1,098)	. 0	(91,083)
Office furnishings and equipment	(69,881)	0	0	(69,881)
Total accumulated depreciation	(159,866)	(1,098)	0	(160,964)
Capital assets, net	\$ 7,673	\$ (1,098)	\$ 0	\$ 6,575

Capital Assets activity for the year ended June 30, 2007 is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Garage machinery and equipment	\$ 91,986	\$ 5,672	\$ 0	\$ 97,658
Office furnishings and equipment	69,881	0	0	69,881
Total capital assets	161,867	5,672	0	167,539
Less accumulated depreciation for:				
Garage machinery and equipment	(89,272)	(713)	0	(89,985)
Office furnishings and equipment	(69,881)	0	0	(69,881)
Total accumulated depreciation	(159,153)	(713)	0	(159,866)
Capital assets, net	\$ 2,714	\$ 4,959	\$ 0	\$ 7,673

#### NOTE 5 – ENTITY RISK MANAGEMENT

The Group is exposed to various risks of loss during its operations. The Group maintains insurance coverage to protect against losses related to real and personal property, general liabilities, crime, automobile liabilities, workers' compensation and catastrophes. Management does not believe the uninsured risks are significant.

In the normal course of business, the Group may become a party to lawsuits in which they defend or settle such actions. When actions are deemed probable of settlement or loss, estimated provisions for losses are provided in the financial statements.

#### **NOTE 6 – OPERATING LEASES**

The Group leases office copiers on an annual basis. There is no commitment for future rental payments. Rent expense for these copiers for 2008 and 2007 was \$15,531 and \$17,774, respectively.

#### NOTE 7 – EMBEZZLEMENT LOSS

A former employee embezzled over \$800,000 from the Group beginning in 2001 until its discovery in December 2003. The Group filed a claim with its insurance carrier and received \$125,000 in 2005, which represented the full policy limit of coverage for employee dishonesty. In addition, restitution payments totaling \$29,739 have been received to date. \$11,867 of this amount was received during fiscal year 2008 and has been accounted for in non-operating revenue. A civil lawsuit was filed against the previous auditing firm and was settled out of court in 2007. The damages were awarded directly to the City of Davenport and to MetroLINK.

# **NOTE 8 – CORRECTION OF ERROR**

Following a review of the history of the Account Receivable from the City of Davenport, Iowa, it was determined that the balance has consistently been overstated by \$50,000 since 2004. As the overstatement is material to the financial statements for the year ended June 30, 2008 and originated in a prior year, the financial statements for fiscal years 2004 through 2007 required restatement (the "Restatement").

The City of Davenport makes prepayments of \$50,000 at the beginning of each month or the end of the preceding month. Due to miscommunication the payment has been treated as a prepayment for the invoice issued in the month, when it was actually a prepayment for the services to be performed in that month. Thus, a prepayment received June 29 and referred to as the July prepayment, was treated as a prepayment to be applied to the invoice issued in July – which is for June services. In reality, this was a prepayment for July services, the invoice for which would not be issued until early August. In 2004, the

financial statements were being corrected as a result of the discovery of embezzlement by an employee. The Accounts Receivable balance for Davenport was determined to be \$50,000 higher based upon perceived subsequent payments. The result is that assets and retained earnings have been overstated by \$50,000 since that time. The necessary adjustment was made to retained earnings as of June 30, 2008, and presented as a prior period adjustment for fiscal year 2007 values shown for comparison purposes.

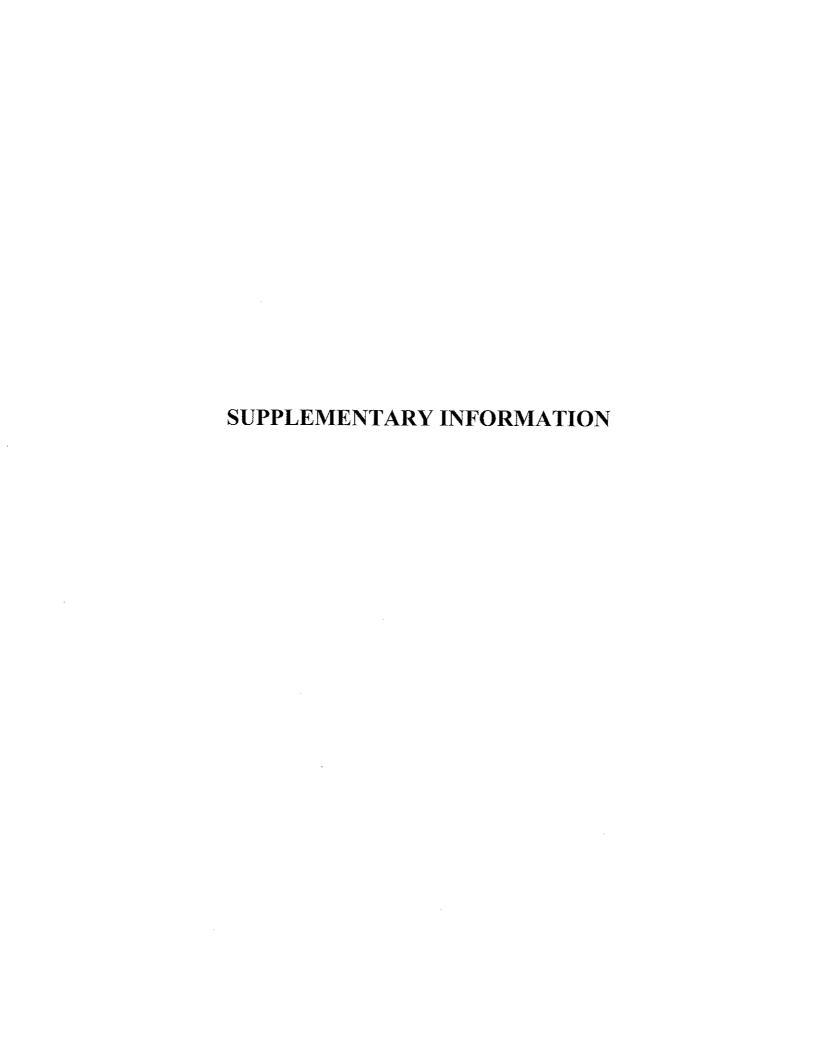
The following is a summary of the line items impacted by the Restatement for the 2004 through 2007 Statements of Net Assets:

	Previously Reported	Adjustments	Restated
June 30, 2004:			
Account Receivable-Davenport	91,275	(50,000)	41,274
Net Assets	235,486	(50,000)	185,486
June 30, 2005:			
Account Receivable-Davenport	82,460	(50,000)	32,460
Net Assets	378,528	(50,000)	328,528
June 30, 2006:			
Account Receivable-Davenport	109,322	(50,000)	59,322
Net Assets	555,797	(50,000)	505,797
June 30, 2007:			
Account Receivable-Davenport	89,489	(50,000)	39,489
Net Assets	520,661	(50,000)	470,661

### **NOTE 9 – CONTINGENT LIABILITY**

If the current Agreement is not extended past June 20, 2010, all assets of the Group will need to be liquidated, including the facility and the property on which is stands. The Group has installed four underground storage tanks (UST) on the property. Two are for storing diesel fuel and have a capacity of 20,000 gallons each. One is for the storage of new oil and has a capacity of 10,000 gallons. The fourth is for the storage of used oil and also has a capacity of 10,000 gallons. A monitoring system is in place to detect any leaks from the USTs, and they are inspected once per year to ensure they are not deteriorating and no leak is imminent.

However, if the property and facility need to be liquidated due to the expiration of the Agreement, the existence of the USTs could pose a liability to the Group. The USTs may need to be closed, either temporarily or permanently, and may even need to be removed. The likelihood of this is considered reasonably possible, but the cost is not reasonably estimable at this time. Thus no liability has been accrued as of June 30, 2008.



# QUAD CITY GARAGE POLICY GROUP Schedule of Expenses Compared to Budget for the year ended June 30, 2008

	Budget	<u>Actual</u>	Variance Favorable (Unfavorable)
Fuel station maintenance			
Wages	\$ 9,000	\$ 14,651	\$ (5,651)
Materials and supplies	11,500	16,925	(5,425)
Total fuel station maintenance	20,500	31,576	(11,076)
Vehicle operations:			
Fuel	1,235,000	1,189,375	45,625
Oil	31,500	36,813	(5,313)
Anti-freeze	5,750	5,018	732
Tires	94,500	89,464	5,036
Total vehicle operations	1,366,750	1,320,670	46,080
Maintenance administration:			
Wages	176,000	151,124	24,876
Training wages	1,500	4,278	(2,778)
Social security	17,000	13,300	3,700
Pension	12,500	10,757	1,743
Health insurance	51,500	48,486	3,014
Life insurance	1,355	998	357
Disability insurance	1,850	1,401	449
Unemployment	520	288	232
Workman's compensation	485	0	485
Sick leave	6,500	8,005	(1,505)
Holiday	7,750	5,853	1,897
Vacation	14,500	12,931	1,569
Other paid time	250	0	250
Uniform allowance	650	686	(36)
Other fringe benefits	0	(135)	135
Casual days	2,500	2,885	(385)
Professional services	176,000	147,078	28,922
Temporary help	885	689	196
Utilities	1,500	1,279	221
Miscellaneous	1,000	1,356	(356)
Total maintenance administration	\$ 474,245	\$ 411,259	\$ 62,986

	<u>Budget</u>	<u>Actual</u>	Fa	ariance vorable <u>avorable)</u>
Service equipment:				
Wages	\$ 115,500	\$ 122,528	\$	(7,028)
Cleanup	8,550	14,236		(5,686)
Social security	6,500	4,752		1,748
Pension	5,000	3,590		1,410
Unemployment	650	418		232
Workman's compensation	2,500	0		2,500
Holiday expense	1,750	1,329		421
Other paid time	500	64		436
Uniform and tool allowance	1,250	694		556
Other fringe benefits	500	0		500
Break time	3,000	2,429		571
Casual days	750	616		134
Contract maintenance	202,500	252,624		(50,124)
Materials and supplies	 50,000	 27,301		22,699
Total service equipment	 398,950	 430,581	***************************************	(31,631)
Inspection and maintenance:				
Wages	446,000	412,906		33,094
Cleanup	18,000	19,141		(1,141)
Training wages	7,500	4,658		2,842
Testing wages	4,000	1,373		2,627
Social security	65,000	63,697		1,303
Pension	45,000	50,746		(5,746)
Health insurance	225,000	239,788		(14,788)
Life insurance	4,500	4,239		261
Disability	6,000	6,930		(930)
Unemployment	2,500	2,002		498
Workman's compensation	28,500	35,823		(7,323)
Sick leave	27,500	31,236		(3,736)
Holiday expense	30,000	28,979		1,021
Vacation	50,000	59,405		(9,405)
Other paid time	5,000	6,918		(1,918)
Uniform	7,500	6,368		1,132

	<u>1</u>	<u> Sudget</u>	<u> </u>	<u>Actual</u>	Fa	ariance vorable <u>favorable)</u>
Inspection and maintenance (continued):						
Tool allowance	\$	3,400	\$	3,443	\$	(43)
Other fringe benefits		750		182		568
Break time		37,500		41,409		(3,909)
Casual days		8,850		11,526		(2,676)
Professional services		2,000		0		2,000
Contract maintenance		73,000		32,790		40,210
Parts and supplies		585,000		649,353		(64,353)
Miscellaneous materials and supplies		26,500		62,550		(36,050)
Utilities - telephone		1,150		868		282
Total inspection and maintenance	1	1,710,150	1	,776,330		(66,180)
Accident repair:						•
Wages		6,500		3,780		2,720
Contract maintenance		3,000		1,278		1,722
Parts		8,000		1,974		6,026
Total accident repair		17,500		7,032		10,468
Vandalism repair:						
Wages		650		44		606
Contract maintenance		1,000		625		375
Parts		1,100		0		1,100
Total vandalism repair		2,750		669		2,081
Servicing and fueling:						
Fuel and oil		5,000		4,573		427
Contract maintenance		2,000		0		2,000
Tires		450		0		450
Total servicing and fueling	\$	7,450	\$	4,573	\$	2,877

		Budget		Actual	F	<sup>'</sup> ariance avorable <u>favorable)</u>
Maintenance of service vehicles:					+	***************************************
Wages	\$	11,500	\$	14,125	\$	(2,625)
Contract maintenance		650		878		(228)
Materials and supplies		1,550		3,392		(1,842)
Total maintenance of service			***************************************		***************************************	· · · · · · · · ·
vehicles		13,700		18,395		(4,695)
Maintenance of fareboxes:						
Wages		7,600		6,853		747
Materials and supplies		8,750		6,212		2,538
Total maintenance of fareboxes		16,350		13,065		3,285
Maintenance of shop, buildings, grounds,						
and equipment:						
Wages		45,500		48,976		(3,476)
Temporary help		500		0		500
Contract maintenance		45,000		64,377		(19,377)
Custodial services		58,000		46,556		11,444
Parts and supplies		350		2,661		(2,311)
Miscellaneous materials and supplies		52,500		51,668		832
Other expenses		400		11,869		(11,469)
Total maintenance of shop, building						
grounds, and equipment	<del></del>	202,250		226,107		(23,857)
Security service:						
Contract maintenance		2,500		2,532		(32)
Security system		1,000		0		1,000
Total security services		3,500		2,532		968
Injuries and damage premiums	\$	11,700		10,273	\$	1,427

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Personnel administration:			
Professional services	\$ 1,400	\$ 1,676	\$ (276)
Employee physicals	3,000	2,666	334
Other expenses	3,500	3,038	462
Total personnel administration	7,900	7,380	520
General legal services	60,000	6,614	53,386
General insurance:			
Premium - fire	15,000	14,557	443
Premium - fidelity	1,000	663	337
Total general insurance	16,000	15,220	780
Data processing services	850	360	490
Finance and accounting services:			
Finance and accounting services	22,000	25,281	(3,281)
Miscellaneous materials and supplies	200	0	200
Miscellaneous	0	95	(95)
Total finance and accounting			
services	22,200	25,376	(3,176)
Office management - materials and			
supplies	18,500	13,368	5,132
General administration:			
Utilities	170,000	163,992	6,008
Travel	1,250	268	982
Miscellaneous	21,000	21,242	(242)
Lease/rental	18,000	15,531	2,469
Total general administration	210,250	201,033	9,217
Total budgeted expenses	\$ 4,581,495	\$ 4,522,413	\$ 59,082
Depreciation		1,098	
Total expenses		\$ 4,523,511	

# REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Members Quad City Garage Policy Group Rock Island, Illinois

We have audited the accompanying financial statements of Quad City Garage Policy Group ("Group") as of and for the year ended June 30, 2008, and have issued our report thereon dated October 28, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

# Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Group's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Group's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Group's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Group's financial statements that is more than inconsequential will not be prevented or detected by the Group's internal control. We consider the deficiencies described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting. [2008-1, 2008-2, 2008-3, & 2008-4]

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Group's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above we consider items 2008-1 & 2008-4 to be material weaknesses.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Group's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an

objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Group's operations for the year ended June 30, 2008 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Group. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The Group's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the Group's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the members and customers of the Group and other parties to whom the Group may report. This report is not intended to be and should not be used by anyone other than these specified parties.

MCGOVERN & Green LLP

Chicago, Illinois October 28, 2008

# Quad City Garage Policy Group Schedule of Findings Year ended June 30, 2008

#### FINDINGS RELATED TO THE FINANCIAL STATEMENTS

# 2008-1: Lack of Segregation of Duties for Inventory

Our audit found that the basic internal control of segregation of duties continues to be inadequate with regards to Quad City Garage Policy Group's ("Group") materials inventory. Segregation of duties requires that the functions of authorizing the procurement of an asset, custody of the asset, and recording of the asset should be separated. We found that the Group has one individual, the Procurement Supervisor, who is responsible for ordering, receiving, reconciling and adjusting the perpetual inventory system.

The current policy is that all purchases and adjustments require approval of the Group's Director of Maintenance. On a monthly basis the Financial Specialist reconciles the inventory to the extended price book and general ledger. As well, a three-way match is performed comparing purchase orders to receiving documents to the vendor invoices. This ensures that an invoice will not be paid if the product is not indicated as both ordered and received. However, despite these control procedures, the current controls can be circumvented. Since the Procurement Supervisor is responsible for ordering, receiving and entering inventory into the FleetNet software, inventory could be ordered and received in the system, but never reach physical custody in inventory – either because it has been stolen, or because it never existed in the first place. The lack of segregation of duties and lack of control over inventory are not adequate to deter theft or fraud.

#### Recommendation

We recommend that the Group further segregate the duties over inventory control. Specifically, the ordering and receiving functions should be separated. We recommend that the receiving duties be performed by the Assistant Director of Maintenance.

# Management's Response

The Group understands the concern expressed regarding having the same individual ordering and receiving parts. The Group has hired a part-time Parts Assistant. In order to partially mitigate this risk, the new Parts Assistant is performing a substantial portion of the receiving duties. We intend to further train the Assistant Director in these duties as well.

# Conclusion

The proposed changes may mitigate the risk, depending upon how thoroughly the duties are transitioned away from the Procurement Supervisor.

# 2008-2: Unauthorized Changes to Carrying Value of Inventory

We tested the entity's application of average costing to inventory line items and determined that drastic changes can be made to the carrying value of inventory by changes in price that are accidental or other in nature. Prices can be adjusted from the shop floor by a mechanic or other persons with access to the hand-held scanning device used for removing a part to be used in service work, or placing a part back in inventory. This can allow for significant variances as an adjustment to the price of a single unit can cause a significant distortion in the carrying balance of that line item. There was a specific instance where a part number had been entered in place of the actual cost. This error was discovered by Garage personnel due to the exorbitant nature of the change in pricing. However, there is currently no procedure in place that allows the Group to either prevent or detect price misstatements of a less obvious nature.

#### Recommendation

Price should be locked as a non-editable item on the handheld scanners in use. This will prevent erroneous adjustments to price for line items at the shop level and restrict control over pricing to accounting. If this field cannot be restricted, then a report should be implemented that identifies changes in average cost which is examined periodically for unusual adjustments. Tighter controls should also be placed over securing inventory to limit the risk of parts being used without being charged out. This can be accomplished by additional training or limiting the number of persons authorized to access areas where inventory is stored without supervision.

## Management's Response

The Group has discussed with FleetNet, the software provider, the possibility of locking the fields as has been asked. At this time FleetNet is not willing to make these changes as they would change the functionality for all of their clients. The Group will work with FleetNet to develop a report which identifies items in which the last purchase price has increased more than 15% for monthly review.

#### Conclusion

We believe the creation and usage of such a report will mitigate the risk.

## 2008-3: Lack of Internal Controls over Usage of Inventory

During the course of our audit, we found that there are no internal controls in place requiring mechanics to properly record the items they remove from inventory to help them perform service work. The current system requires that mechanics use the hand-held bar-code reader in the inventory area to record any items removed by entering the part number, quantity and work order number. As well, the Administrative Assistant reviews the work orders to see if the parts recorded appear reasonable. However, there are no controls in place to enforce the recording requirement, nor is there a formal review process for judging if parts were handled properly. The Procurement Supervisor cites scanning of incorrect bar codes, forgetting to scan bar codes altogether, and also returning parts without properly scanning them back in to inventory as some of the reasons behind the inventory adjustments that must be made periodically to bring the general ledger in balance with the physicial inventory.

#### Recommendation

The most effective control to implement would be to designate one individual as the Inventory Controller. They would be responsible for receiving and issuing all parts. This would also help to address the lack of segregation of duties for inventory. If that is not feasible, reducing the risk by designating one individual per shift who is responsible for this function would help to mitigate the issue. This would increase consistency and accountability. If neither of these suggestions is adopted, the mechanics should receive re-training emphasizing the importance of accuracy and completeness in the process. In addition, someone with more mechanical training than the Administrative Assistant should be formally reviewing the work orders for completeness of the parts recorded as used.

#### Management's Response

The Group feels that the additional training already provided to the mechanics has improved the handheld entries. The Group will continue to monitor this and make adjustments if they appear to be warranted.

#### Conclusion

Additional training may mitigate the risks, but we feel that supervisory review and/or spot checking in addition to the training would create a more effective internal control environment.

## 2008-4: Insufficient Understanding of Accounting Concepts

Our examination of the monthly bank reconciliations found that the Financial Specialist had an insufficient understanding of the accounting concepts involved. The purpose of bank reconciliations is to ensure that the account balances reported by the bank via the monthly statements tie out to the balances found in the general ledger for those accounts, after any necessary adjustments. There are three bank accounts for the Group, and two of the three were not agreeing with the balances in the general ledger when we were assessing the Group's internal controls. However, the bank reconciliations that had been performed indicated that all accounts were in balance because the Financial Specialist was not referring to the general ledger for her comparison amount. She did not understand the accounting concepts behind the reconciliation sufficiently to be able to properly perform the action. This reinforces our control deficiency finding last year that the Financial Specialist does not have sufficient accounting training and understanding to perform the accounting portion of her duties, including account reconciliations and general ledger entries.

#### Recommendation

The Financial Specialist needs to receive training in accounting concepts sufficient to allow for independent performance of her duties. Until such time, her work needs to be carefully reviewed by someone who is sufficiently fluent with accounting concepts to ensure that the work is being performed in accordance with Generally Accepted Accounting Principles (GAAP). If that is not feasible, then the accounting functions of account reconciliations and general ledger entries should be performed by someone who is properly trained in GAAP.

# Management's Response

Starting in July 2008 the Group began revising the duties of the Finance Specialist and the Administrative Assistant. As of October 2008 the Finance Specialist is primarily performing the functions of an accounts payable clerk and the Administrative Assistant has taken over the majority of the month-end closing procedures. This was done because of the concerns that the auditors had previously expressed and was made possible due to the fact that the Administrative Assistant is finalizing her Associates Degree in Finance.

#### Conclusion

We believe that the implemented changes will mitigate the risk.

# **FINDINGS OF NON-COMPLIANCE**

No matters were found.